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INFO GULF COOPERATION COUNCIL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RHEHNSC/WHITE HOUSE NATIONAL SECURITY COUNCIL WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEHFR/AMEMBASSY PARIS 0001
RUEHKO/AMEMBASSY TOKYO 0001
RUEHUL/AMEMBASSY SEOUL 0001
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C O N F I D E N T I A L ABU DHABI 001173

SIPDIS
DEPARTMENT FOR ISN/NESS, EEB/CBA AND NEA/ARP
NSC FOR JOST
COMMERCE FOR ITA AND ADVOCACY CENTER

E.O. 12958: DECL: 2019/12/28
TAGS: ENRG KNNP PGOV ECON ETRD AE
SUBJECT: UAE AWARDS NUCLEAR TENDER TO KEPCO

REF: ABU DHABI 1085; ABU DHABI 1062; ABU DHABI 827 AND PREVIOUS

CLASSIFIED BY: Richard G. Olson, Ambassador; REASON: 1.4(B), (D)

¶1. (C) Summary: After more than a year of political and commercial jockeying, Abu Dhabi's Emirates Nuclear Energy Corporation (ENEC) awarded a USD 20 billion "prime contractor" deal to a consortium led by South Korea's KEPCO. Long favored by Emirati officials for the technical and commercial advantages of its bid, KEPCO managed to hold onto its lead despite stiff competition from AREVA (France) and GE/Hitachi (US/Japan). Coming on the heels of the entry into force of the US-UAE 123 Agreement on December 17 and the December 23 establishment of ENEC, the award marks a defining milestone in realizing Abu Dhabi's plan to develop nuclear power. End Summary.

KEPCO FINISHES STRONG

¶2. (SBU) On December 27, Korean President Lee Myung-bak and President Sheikh Khalifa bin Zayed witnessed the signing of a USD 20 billion contract between KEPCO and ENEC to build and operate four nuclear power plants in Western Abu Dhabi. Abu Dhabi officials say the winner will have a strong advantage in future plans to build as many as 12 plants. The KEPCO-led consortium includes engineering, procurement and construction (EPC) contractors Samsung and Hyundai, and heavy components from Doosan and Westinghouse (which will provide an estimated USD 1.5 billion in U.S. manufactured components). KEPCO will also be the operator. The first pouring of safety related concrete is expected in March 2012, with the first plant expected to be operational by 2017. (Note: ENEC's newly launched website, www.enec.gov.ae, includes an expected project timeline. End Note.)

¶3. (C) Executive Affairs Authority Director for Economic Affairs Dave Scott, a key advisor to the nuclear program, told EconOff on December 27 that ENEC, advised by U.S. firms CH2MHill and Lightbridge Corporation, as well as other UAE officials, conducted a comprehensive review of the technical and commercial bids. In every way, KEPCO's bid was superior and the decision was "clear and stark." Scott said KEPCO's cost per kilowatt hour was significantly cheaper than the French and US/Japanese competition. Further, he noted that 92 percent of KEPCO's bid was fixed price and content was dollarized, so prices were unlikely to fluctuate

during construction. KEPCO carefully lined up construction components and subcontractors to demonstrate the UAE could count on KEPCO to deliver on schedule and at cost. Some components were already ordered and EPC workers on standby in the Gulf to begin construction. Scott said KEPCO had assumed the majority of any risk in the contract pricing and passed the majority of any savings on to ENEC.

¶4. (C) Scott told EconOff that the UAE would be seeking commercial financing to cover the USD 6 billion that would not be financed by KEPCO and ENEC's equity stakes in the project. He noted that he has already been approached by a number of international banks and investors who were interested in contributing financing to the project. Scott added that the Korean export credit agency was likely to provide project finance and he expected Westinghouse would seek the same from ExIm. While admitting that the exact terms were still unclear, Scott was confident ENEC's business model would attract plenty of financing.

COMPETITION NEVER COMPETITIVE

¶5. (C) Scott said that the Areva and GE/Hitachi bids never managed to catch up to the Korean competition, despite significant coaching from the UAE about their weaknesses. He noted that although GE/Hitachi dropped their final price by "double-digit billions," the price per kilowatt hour was still 82 percent higher than KEPCO's. He noted that GE/Hitachi's contractors and subcontractors had all factored in "contingencies," which compounded to raise the total price significantly. In contrast to KEPCO, Scott said the GE/Hitachi consortium passed any and all risk onto ENEC. Additionally, U.S. operator Excelon had no experience operating GE/Hitachi's ABWR technology.

¶6. (C) Scott said Areva had a similar problem, initially suggesting GDF Suez would be the operator, although later shifting to EDF, which has operated the Areva technology. He added that the UAE was very concern about Areva's delivery schedule, as its projects in Finland and France are both behind schedule. Scott said he was confident the UAE had given both Areva and GE/Hitachi every opportunity to improve their bid, but neither had made a convincing argument.

¶7. (C) Turning to Areva's argument that KEPCO's technology was not safe, Scott said that ENEC had applied a comprehensive safety review to all three consortia. This included a review of design, materials, construction and operator safety. He said ENEC had carefully studied the containment and aircraft impact features of KEPCO's design and was convinced there was no safety risk.

THE WAY FORWARD

¶8. (C) The announcement ends a bidding process that began in February and was initially expected to end in September. The three consortia downselected in May, GE/Hitachi/Excelon (US/Japan/US), Areva/Bechtel/Gas de France (GDF) (France/US/France), and KEPCO (Korea), exerted significant political and commercial efforts to win the tender. While GE officials said questioning nuclear safety ultimately hurts all technology providers, French officials argued that the Korean bid had safety flaws and was not a third generation technology. Finals bids from the three consortia (reftels) were submitted on December 10 and followed by intense political lobbying by Korean, French, Japanese and U.S. officials, including French

President Sarkozy, Japanese PM Yukio Hatoyama, and Korean Prime Minister Han Myeong-Sook who all repeatedly called the Crown Prince.

¶9. (C) The final decision was facilitated by the December 17 entry into force of the US-UAE 123 Agreement and the December 23 creation of ENEC by an emiri decree issued by UAE President Sheikh Khalifa bin Zayed, in his capacity as Ruler of Abu Dhabi. ENEC's board is chaired by Khaldoon Al Mubarak (Mubadala CEO and Executive Affairs Authority Chairman), and includes Sheikha Lubna Al Qassimi (Deputy Chair and Minister of Foreign Trade), Jasem Mohammed Al Zaabi (Member and Mubadala ICT Executive Director), Mohamed Sahu Al Suwaidi (Member and General Manager of GASCO, a subsidiary of Abu Dhabi National Oil Company) and David Scott (EAA Director of Economic Affairs.) The decree also formalized Mohammed Al Hammadi's formerly interim position as ENEC CEO.

¶10. (C) Comment: Korea's success in adopting a foreign technology and developing a home-grown nuclear industry was no doubt an attractive model to Abu Dhabi decision makers. Senior officials repeatedly complimented the Korean example over the past year and never appeared to stray from that view. While such a huge project

will present a number of challenges, Abu Dhabi officials are confident they have made the best choice. The clear decision was to make a high-capital investment in nuclear power today to benefit from future low cost power generation. End Comment.
OLSON